

Enterprise Management Incentive Scheme



Advantages



Disadvantages

Advantages of EMI:

EMI also confers real tax benefits on both employers and employees which can result in:

For Employers

- No employer National Insurance Contributions ("NIC") on either the grant or exercise of the options (provided certain conditions are met);
- Corporation tax relief on the difference between the market value of the shares at option exercise (i.e., when the shares are acquired) and the option price paid. This can result in a substantial windfall for the company/shareholders upon a sale.

For Employees

- No income tax and no employees' NIC on either the grant or execution of the options.
- Lower tax costs than cash/non-EMI arrangements (provided certain conditions are met)
- Capital Gains Tax ("CGT") on the appreciation of Growth Shares;
- It's important to note that most EMIs will begin accruing the 12 month holding period for entrepreneurs' relief ("ER") as of the date the EMI option was granted, resulting in a 10 percent (instead of a 20 percent) rate of capital gains tax. Even tiny minority ownership of Growth Shares may be eligible for the 10 percent rate of CGT since there is no requirement for a 5 percent holding under EMI to qualify for ER.



Disadvantages of EMI:

Enterprise Management Incentives are a tax-favorable arrangement offered by HM Revenue & Customs, but only if specific requirements are completed by businesses and employees (EMIs).

Although HMRC can be contacted for pre-clearance in circumstances of uncertainty, certain of these can be limiting.

Even though providing EMI options can be done quite easily, there are a few post-grant risks to be aware of namely tax valuation, discounts, HMRC notifications, working time requirement, control, paperwork and disqualification